December 1990 Monthly Survey

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Surveys of Consumers

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CONFIDENCE UNCHANGED AT LOW LEVELS

Consumer Confidence Remains Low

Consumer sentiment remained largely unchanged at low levels in the fourth quarter 1990 surveys. Among all families, the Index of Consumer Sentiment stood at 65.5 in December, an insignificant difference from the levels recorded one or two months earlier, or from the fourth quarter average of 65.1.

Overall, the fourth quarter 1990 surveys recorded the lowest level of consumer confidence since 1980. During the past 30 years, there have only been 8 quarters in which the Index was lower than in the fourth quarter of 1990: during the 1973-75 recession and just prior to and during the 1980 recession.

While the fourth quarter 1990 results do indicate a halt to the sharp declines recorded from midyear, there is little evidence of an emerging rebound from the currently depressed levels. Inflation and interest rate expectations did improve in the December survey, but concerns with rising unemployment remained widespread. While fewer consumers thought that conditions in the national economy would further worsen, the vast majority thought that bad times financially would persist into the year ahead.

Consumer Reactions to War

In the past, consumers have viewed the impact of war on the domestic economy in both positive and negative terms. On the one hand, rising military expenditures have increased production and employment, which consumers saw as a benefit to the economy. However, military conflicts have also been accompanied by rising inflation and taxes, clear negatives for consumers.

Korea. In the early part of the Korean conflict, defense spending expanded rapidly and consumers thought it would benefit business conditions. Following the initial news of the invasion of South Korea, the most important influence on consumers came with the unexpected and shocking news of military setbacks. As a result, consumers anticipated rapid increases in inflation and higher taxes. With the memories of WWII shortages and rationing of consumer goods still fresh in their minds, for a time consumers stepped up buying so as to beat any war induced shortages. Price controls were instituted in January 1951. Moreover, along with the expectations of a military expenditure boom at the start of the war, came the expectation of sharp cutbacks in military spending at its conclusion. The economy slipped into a recession by July of 1953, which lasted to May of 1954.

Vietnam. The impact of the Vietnam war was similar, but not identical. While the initial increases

in military expenditures were not widely publicized, in the early stages of the war consumers did think that the domestic economy benefitted from the rise in military expenditures. As the war progressed, tax increases and rising inflation eroded favorable opinions on the economic implications of the war. As the war lengthened, news of military setbacks, as well as more basic questions about the appropriateness of our involvement, had a significant, negative influence on consumer attitudes. As in the Korean conflict, the Vietnam period was marked by a recession, lasting from December of 1969 to November of 1970, as well as by price controls.

Persian Gulf. In the current situation, the increase in military expenditures is not expected to have a significant impact on the domestic economy. In part, this is because of the expected short duration of the conflict, and in part because of declines in other portions of the military budget. Thus, the benefits on domestic production and employment are not present in the current situation.

If the military conflict can be avoided or is relatively short, the resolution of the crisis will have a positive, but small impact on consumers. The favorable impact, however, will not be sufficient in itself to reverse the entire extent of the recent declines in confidence. The problems in the domestic economy will not be erased by a quick and successful conclusion of our involvement, since that will not resolve the concerns of consumers with rising unemployment, lagging incomes, declines in wealth from losses in real estate values, or the uncertainties generated by the problems facing financial institutions.

The upside benefits on consumer attitudes are thus not very great, while the downside risks are more substantial. As in previous situations, news of military setbacks or a stalemate could well have a significant unfavorable impact on consumers.

Offsetting Changes Among Population Subgroups

The December 1990 survey recorded small offsetting changes in consumer sentiment among population subgroups from the November readings.

The Index of Consumer Sentiment fell among families with incomes above $40,000 to 68.1 in December, from 72.7 in November, offsetting gains among lower income families. Confidence among high income families declined by a total of 31.0 Index-points during the last half of 1990, compared with a total decline of 22.8 Index-points among all families.

The Index posted further declines among residents of the Northeast and West, while confidence among residents of the North Central and South inched upward. Among residents of the Northeast, the Index fell to 55.6 in December from 63.9 in November, marking the lowest level recorded since the last recession. For residents of the West, the Index fell to 64.7 in December from 68.3 one month earlier, also the lowest level since the recession in the early 1980s. In contrast, confidence among residents of the North Central region rose to 69.4 in December from 67.2 in November, and among residents of the South the Index rose to 68.4 in December from 65.2 one month earlier.

Leading Indicator Posts Small Improvement

The Index of Consumer Expectations rose to 53.7 in December, marking the second small monthly improvement from the low of 50.9 recorded in October. The gain was due to a slight improvement in the outlook for the national economy over the longer term, while prospects for economic conditions during the year ahead showed no improvement. To be sure, the improvement in the Expectations Index has thus far been very small given the substantial declines posted during the past year.

The Index of Current Economic Conditions fell to 84.0 in the December 1990 survey, down from 86.7 in November, leaving it at its lowest level since 1983. This reflects the typical cyclical pattern, whereby evaluations of current economic conditions

continue to decline following the start of a recession.

Recessionary Declines Expected to Slow

The vast majority of respondents in the December 1990 survey thought that the economy was in a recession. Among all families, 79 percent reported that the national economy was in decline. This perception rose sharply prior to the fourth quarter of 1990 (from 39 percent in July to 74 percent in October), and has since then increased only by a small amount.

Despite the widespread view that the economy had worsened during past year, expectations about the future direction of change in the economy have improved during the fourth quarter surveys. The proportion of families that expected further worsening of economic conditions fell to 35 percent in the December 1990 survey from 41 percent in November and the recent peak of 43 percent in October.

While somewhat fewer consumers thought that the economy would further worsen during the year ahead, few expected overall economic conditions would be favorable. Just 12 percent of all families expected good times financially in the economy as a whole during the year ahead, just above the all-time record low of 11 percent recorded in 1980. Bad times financially were expected to persist during the year ahead by 72 percent of all families in the December 1990 survey.

The proportion of consumers that expected good times financially in the economy during the next five years rose slightly to 24 percent in December 1990 from 18 percent in November.

Increases in Unemployment Remain Top Concern

The national unemployment rate was expected to increase during the year ahead by 60 percent of all families in the December 1990 survey. While this was somewhat below the 64 percent recorded in November, it remained substantially above the 37 percent recorded in July of 1990 and December of 1989.

Inflation Rate Expected to Decline

Importantly, inflation expectations improved in the December survey. The annual rate of inflation expected by consumers fell to 5.5% in December from 5.7% one month earlier and 6.1% two months earlier.

Interest Rate Outlook Improves

Interest rates on consumer loans were expected to decline by 32 percent in the December survey, up from 21 percent one month earlier and 14 percent three months earlier. This was the highest proportion of families to expect declines in interest rates in nearly five years. The proportion that expected increases in interest rates fell to 43 percent in December from the recent high of 63 percent in September.

Personal Finances Unchanged At Diminished Levels

Personal financial assessments remained largely unchanged in the December survey from one month earlier, as the benefits from smaller price increases were offset by smaller income gains. Among all families in the December 1990 survey, 33 percent reported that they were better off financially than a year earlier, between the 35 percent recorded one month earlier and the 30 percent recorded two months earlier.

Fewer families expected their financial situation to improve during the year ahead (26 percent in December, down from 31 percent in November), and fewer families expected their situation to worsen (16 percent in December, down from 19 percent in November), leaving the majority (54 percent)

expecting an unchanged financial situation.

Buying Attitudes: Price Discounts Overwhelmed by Economic Uncertainty

Attitudes toward buying conditions for vehicles as well as large household durables weakened in the December survey, while home buying attitudes improved slightly due to lower mortgage interest rates.

Although references to the availability of price discounts were more frequent in December than November for each market studied, the widespread sense of uncertainty about economic prospects during the year ahead continued to be the primary reason given by consumers for their reluctance to make major purchases. These concerns have pushed buying attitudes toward vehicles and large household durables to the lowest levels recorded since the early 1980s.

Household Durables. The proportion of families holding favorable attitudes toward buying conditions for furniture, appliances, and home electronic declined in the December 1990 survey to 55 percent from 61 percent one month earlier. This was the lowest level of favorable attitudes recorded since the early 1980s.

The decline came despite more positive attitudes toward current prices. The proportion of families that mentioned the availability of price discounts on large household durables rose to 30 percent in December from 27 percent in November, while complaints about high prices fell to 9 from 12 percent.

The decline was due to more families adopting cautious attitudes toward spending. A total of 28 percent of all families mentioned that because of current economic problems and uncertainty about the future, they thought it was a bad time to plan major purchases.

Vehicles. Favorable attitudes toward buying conditions for vehicles were held by 47 percent of all families in the December 1990 survey, down from 50 percent one month earlier. This was the lowest proportion of families to report favorable car buying conditions since the recession of the early 1980s.

The decline came despite a slightly higher proportion who reported the availability of price discounts (36 percent in December, up from 34 percent in November), and a slightly lower proportion who complained about high vehicle prices (17 percent, down from 19 percent).

When asked to explain their views, it was concerns about current and prospective economic conditions that consumers cited more frequently. In the December 1990 survey, one-in-five consumers mentioned these factors as the reason they thought it was a bad time to purchase vehicles.

Homes. Favorable home buying attitudes were held by 55 percent of all families in the December 1990 survey, up from 54 percent one month earlier and 50 percent two months earlier. The small improvement over the past two months has been due to lower mortgage interest rates--reported by 17 percent of all families in December, up from 11 percent two months earlier.

Declines in home prices were mentioned by 38 percent of all families in the December 1990 survey, the highest proportion ever recorded in the history of these surveys.

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The December 1990 survey included 504 completed interviews conducted between November 26 and December 21, 1990.